



ANNUAL REPORT
FOR THE 2009/2010 FINANCIAL YEAR

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INTRODUCTION AND OVERVIEW

INTRODUCTION

FOREWORD BY THE HONOURABLE MAYOR: CLLR M.A.Hlatshwayo.

This report should be seen as an exercise in accountability to the Council, the people of eDumbe and other stakeholders. It endeavours to explain and quantify the Municipality's developmental activities for the period under review. An important trait of this report is that it mirrors, successfully, the Municipality's framework for development and service delivery as it is articulated in our Integrated Development Plan for the year, and that the costs and quantifications contained herein are as per the Budget approved by Council for the same period. By their very nature, service delivery and infrastructural development are ongoing processes, thus one will find that some of the operations encapsulated in this Annual Report are a continuation of activities from the previous Financial Year.

In presenting this Annual Report, I find it incumbent upon me to commend responsible Departments for the achievements that the Municipality has attained in responding to the needs and aspirations of our people. I also want to compliment the astute and decisive political oversight from the responsible Councillors that ensured that Council resolutions and the aspirations of the people found adequate expression in the activities of Departments. This Annual Report does not in any way seek to conceal the challenges and shortcomings that the Municipality experienced in this regard. In fact, this report reflects not only our successes, but also those areas where service delivery and development did not live up to our expectations.

Whilst our municipality was faced with many challenges that inhibit our desire of improving the quality of life of our communities, remarkable achievements have been made in optimally utilizing the minimum financial and human resources at our disposal through public participation - to provide sustainable services. In short, this report captures the extent to which the Municipality has responded to the needs and expectations of our people, and how we have managed the development of our towns.

In conclusion, I hope that this Annual Report will be accepted not only for its status as a legal requirement, but also for its value as a symbol of transparency and a reliable yardstick for progress in our ongoing efforts to create a better life for the people of the eDumbe Municipal boundary.

I want to also express my heartfelt thanks to the Municipal Manager and the staff of the eDumbe Municipality for providing Councillors and myself as Mayor a conducive working environment and for the commitment shown in assisting us achieve our Community driven goals.

Thank You

MESSAGE FROM THE MUNICIPAL MANAGER: MR A.M.T. Putini

I am proud to present this our fourth Annual Report of the eDumbe Municipality for the period ended 30 June 2010. Our Municipality has faced an number of challenges within the Administration and I sincerely believe that we have been broad shouldered in our efforts to ensure that the Municipality has continued and will further continue to maintaining the Batho Principles. To this end I want to indicate that every effort from the Management team has been made to ensure effective and efficient delivery of services within the financial constraints of the Municipality.

The Municipality had to respond to a plethora of imperatives affecting all Municipalities in South Africa. Root causes for some of these problems as highlighted by the National Department of Co-operative Governance and Traditional Affairs include:

Systemic factors i.e. linked to model of local government;

Policy and legislative factors;

Political factors;

Weaknesses in the accountability systems;

Capacity and skills constraints;

Weak intergovernmental support and oversight; and

Issues associated with the inter-governmental fiscal system.

The Local Government Turnaround Strategy (LGTAS) has been devised to counteract those forces that are undermining our Local Government System. National Government wants to turn around municipalities from struggling with failure to ones that are confident in their abilities to execute their service delivery mandates. All of us must rise to the challenge of ensuring our municipalities are sites of excellence and they are led and staffed politically and administratively with office bearers and public servants who are responsive, accountable, efficient, effective, and carry out their duties with civic pride.

Having endured the pressures, I am happy to report that the Municipality has been able to sustain these challenges.

As a Municipality, amongst others, we are constrained in our ability to generate adequate own revenue streams and are therefore predominantly Grant dependent. The effect of this dependency is that we are unable to fast track the eradication of backlogs in service delivery, whilst every effort is made to do so. During the reporting period I need to indicate that the Municipality had lost the services of the Chief Financial Officer (CFO) and a number of contingency plans had to be put in place. We have had to appoint members of staff to act as the CFO for periods at a time, however this proved unsatisfactory as there was no continuity in the leadership within Finance.

It is disappointing to report that in spite of our efforts to change the opinion of the Auditor- General, our endeavours went unheeded to the extent that we were unable to adequately satisfy the requests from the Audit team.

I have a sense of belief in the Finance team and the entire Administration that these setbacks will contribute to the “lessons learnt” and we will be stronger and better prepared to face the challenges in the future. As the

Management team we are aware of all of the prerogatives of National Treasury, National COGTA and other stakeholders in providing support to the team in achieving the goals as set down by the National Leadership.

Vision

"By 2026 eDumbe Municipality will be the most successful rural Municipality in the country which will be economically viable to provide services to its communities in an effective, efficient, transparent and sustainable manner. It will seek to achieve this by strengthening the unique social, economic, agricultural, urban, tourism, and overall environmental potential of the local Municipality area while protecting resource base for succeeding generations."

Mission

- **To compete vigorously with other Municipalities in service delivery and ensure that the basic services are rendered**
- **To promote economic development and ensure that people in rural areas are socially and economically developed**
- **To make tourism our solemn advantage in attracting more people who will contribute positively in our economy**
- **To develop skills to our young people**

PERFORMANCE HIGHLIGHTS

In this Chapter the core activities of the municipality are presented per individual departments. Secondly, a highlight of performance is also provided.

OFFICE OF THE MUNICIPAL MANAGER

STRATEGIC OBJECTIVES

STRATEGIC LEADERSHIP

- Provide strategic leadership to all operational activities of the municipalities;
- Provide the link between the political leadership and administrative activities of the municipality;
- Provide strategic leadership and guidance in the development and implementation of the IDP, Budget and SDBIP;
- Identify and develop new business initiatives for the municipality;
- Ensure alignment of municipal activities to National and Provincial Priorities; and
- Ensure that Council policies, resolutions and relevant pieces of legislation are implemented and/or complied with.

INSTITUTIONAL CAPACITY DEVELOPMENT AND MANAGEMENT

- Enhance institutional delivery capacity by researching, analyzing and implementing best practices;
- Design, develop and implement systems and processes to improve the municipal operational efficiency;
- Define and implement effective management systems;
- Ensuring optimum utilizations of resources and value for money;
- Manage and develop human capital talent and ensure that the municipality has effective and consistent people management policies; and
- Provide adequate physical, financial and other resources for the achievement of the municipal strategic goals.

PUBLIC PARTICIPATION

- Develop and promote community participation in government activities;
- Consult stakeholders and solicit input on the development of the IDP and the Municipal Budget;
- Lead, manage and coordinate the performance of the Community Development Workers (CDW's), and Ward Committees;
- Initiate, develop and coordinate programmes and interventions for ensuring maximum public participation in municipal programs;

STAKEHOLDER MANAGEMENT

- Develop and maintain good relations with key stakeholders, relevant National and Provincial Government Departments and Civil Society Organisations;
- Manage relationships both internally and externally;
- Enable and leverage networking ability across public and private entities to facilitate collaboration;

MARKETING AND COMMUNICATION

- Maintain and enhance a positive image of the municipality;
- Develop and implement municipal communication strategy in line with key functions of the municipality;
- Develop and maintain strong relations between the municipality and the media;
- Arrange media conferences and media release for the municipality;
- Provide advice on communication matters ;
- Represent the municipality in all communication forums;
- Manage and oversee the implementation of the municipal outreach programs

INTERNAL AUDIT AND RISK MANAGEMENT

- Identify all risks, develop and implement risk management strategies for the municipality;
- Assess the effectiveness and efficiency of the control environment within the municipality and weaknesses have been identified, develop procedures to reduce such risks;
- Ensure that the municipality has an effective annual internal audit plan;
- Ensure that the audit committee is functional and provide sufficient oversight role to the audit committee;
- Provide leadership in the establishment of a culture that emphasizes internal control systems as an important priority within the municipal operations.

INTEGRATED DEVELOPMENT PLANNING (IDP)

The Integrated Development Planning of the municipality is the Master Plan and influences any other planning processes that the municipality could embark on. The planning process is a clearly defined step by step process which is outwardly focused, performance orientated and goal driven. eDumbe Municipality has ensured within its limited capacity and resources that every reasonable measure to fulfil the desired objectives of the municipality as dictated upon by the IDP have been taken.

The approved IDP which is used as our barometer for measuring the extent by which we are satisfying the needs of our communities is a realistic document with largely achievable targets which, in the main, is based on input received from the community. The municipality has attempted to link in as far as possible with provincial and national strategic frameworks and millennium goals. The IDP reflects its information in the five Key Performance Areas, namely:

Institutional Capacity and Transformation

Service Delivery and Infrastructure

Local Economic Development

Democracy and Governance

Financial Management

IDP functions fall directly in the office of the Manager: Planning and Community Services with a clear focus on:

The day to day management of the IDP and all the complimentary processes involved

Ensuring stakeholder participation and public participation

Ensuring that the implementation of the IDP imperatives are not distorted and that they remain a true reflection of the needs of the communities

Overseeing the alignment and integrating of activities across all departments and also ensuring that such alignment cascades as far down the line as possible.

A more rigorous attempt was made to include communities and various organisations in the whole IDP process. A Public Participation Framework has been developed as well as a draft Communication Strategy. Road Shows, IDP Forum meeting, notices and newspaper advertisements were tools used to inform the public about all matters related to the IDP. The municipality strives to improve its communication strategy on an ongoing basis.

eDumbe Municipality has serious constraints in terms of human and financial resources. However in executing its functions all appropriate mechanisms and procedures to ensure active participation of its communities and stakeholders were used through the planning stage.

During the review process the municipality reviewed its institutional arrangements, strengths and weaknesses, opportunities and threats. A review of the socio economic analysis was also undertaken. This presented itself as an opportunity for the municipality to conduct an honest introspection of its capacity to

deliver on its mandates and obligations and to identify innovative ways of conducting its business in an endeavour to achieve its targets.

The municipality has huge potential to maximise its current economy by enhancing and improving infrastructure and its two core economies, agriculture and tourism. This can only be done though with the assistance of the district municipality and other sector departments.

REPORT OF THE CHIEF FINANCIAL OFFICER

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practices (GRAP) and the Standard of Generally Accepted Municipal Accounting Practices (GAMAP) prescribed by the Minister of Finance in terms of:

- General Notice 991 of 2005, issued in Government Gazette no. 28095 of 15 December 2005;
- General Notice 992 of 2005, issued in Government Gazette no. 28095 of 7 December 2005.

The Standards comprise of the following:

GRAP 1	Presentation of Financial Statements
GRAP 2	Cash Flow Statements
GRAP 3	Accounting Policies, Changes in Accounting Estimates and Errors
GAMAP 4	The Effects of Changes in Foreign Exchange Rates
GAMAP 6	Consolidated Financial Statements and Accounting for Controlled Entities
GAMAP 7	Accounting for Investments in Associates
GAMAP 8	Financial Reporting of Interests in Joint Ventures
GAMAP 9	Revenue
GAMAP 12	Inventories
GAMAP 17	Property, Plant and Equipment
GAMAP 19	Provisions, Contingent Liabilities and Contingent Assets
GAMAP 6, 7 and 8 have been complied with to the extent that the requirements in these Standards relate to the municipality's separate financial statements.	

Accounting policies for material transactions, events or conditions not covered by the above GRAP and GAMAP Standards have been developed in accordance with paragraphs 7,11 and 12 of GRAP 3. These accounting policies and the applicable disclosures have been based on the South African Statements of Generally Accepted Accounting Practices (GAAP) including any interpretations of such Statements issued by the Accounting Practices Board.

The Minister of Finance has, in terms of General Notice 552 of 2007 exempted compliance with certain of the above mentioned standards and aspects or parts of these standards. Details of the exemptions applicable to the municipality have been provided in the notes to the annual financial statements and Annexure 2.

The financial statements have been prepared on the historical cost basis. A summary of the significant accounting policies, which have been consistently applied except where an exemption has been granted, are disclosed below:

REPORT OF THE HUMAN RESOURCS OFFICER

Employee Dismissed as at 09/10

1. M.M.Magagula (Human Resource Clerk)

Employee Suspended 09/10

1. P.H.Z.Kubheka (Chief Financial Officer)
2. B.Meyer (Procurement Officer)
3. L.H.Masondo (Accountant Revenue/Billing)

Employees Resigned 09/10

1. S.J.Gumede (Driver/Operator)
2. H.Thomas (Secretary to Municipal Manager)
3. N.P.Jwara (Communication Officer)
4. S.K.Buthelezi (Financial Assistant)

Employees Deceased 09/10

1. D.H.Mthethwa (General Assistant)
2. P.S.M.Buthelezi (Manager Community Services)
3. D.J.Mbatha (General Assistant)

Employees appointed as at 09/10

1.S.S.Maseko	(General Assistant)
2.H.B.Mhlongo	(General Assistant)
3.N.E.Mavuso	(General Assistant)
4.M.G.Hlatshwayo	(General Assistant)
5.N.Khumalo	(General Assistant)
6.M.D.Dlamini	(Library Computer Assistant)
7.M.O.Kunene	(Financial Intern)
8.S.L.Mpungose	(Financial Intern)
9.S.N.Zwane	(Cashier Licensing)
10.N.G.Mbokazi	(Cashier Licensing)
11.Mkhabela	(General Assistant)
12.N.B.Khanyile	(Personnel Assistant to Mayor)
13.M.C.Nkosi	(Cashier)
14.N.Mathabela	(Manager Information Technology)
15.S.E.Mtshali	(Electrician)
16.N.P.Mbatha	(General Assistant)
17.N.P.Mtshali	(General Assistant)
18.S.R.Nkosi	(General Assistant)

TRAINING OURSES ATTENDED

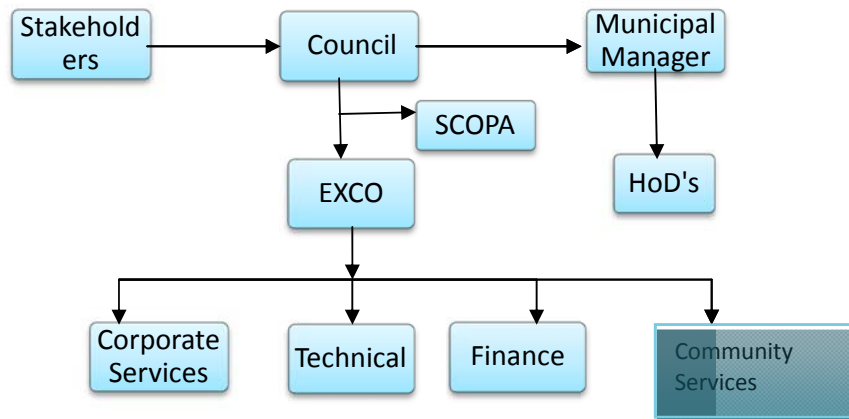
TRAININGS ATTENDED 09/010		
COURSE NAME	EMPLOYEES ATTENDED	VENUE
GIS	H.D.ZULU	DURBAN
GIS	M.J.TWALA	DURBAN
Occupational Health and Safety	ALL GENERAL ASSISTANTS	VRYHEID
RECORDS MANAGEMENT	H.THOMAS	eDumbe Municipality
	Z.ZIKALALA	eDumbe Municipality
	M.V.XABA	eDumbe Municipality
	N.G.MBOKAZI	eDumbe Municipality
	M.M.MAGAGULA	eDumbe Municipality
	D.S.MKHWANAZI	eDumbe Municipality
	I.M.HADEBE	eDumbe Municipality
	B.L.NKWANYANA	eDumbe Municipality
	N.S.N.MAKHOBHA	eDumbe Municipality
	Z.L.DLAMINI	eDumbe Municipality
	O.KUNENE	eDumbe Municipality
	S.MPUNGOSE	eDumbe Municipality
	S.C.PHAKATHI	eDumbe Municipality
	B.A.MBATHA	eDumbe Municipality
SUPPLY CHAIN MANAGEMENT	N.P.JWARA	RICHARDS BAY
	J.T.MBOKAZI	RICHARDS BAY
	H.D.ZULU	RICHARDS BAY
	P.SM.BUTHELEZI	RICHARDS BAY
	A.L.MERVIA	RICHARDS BAY
CUSTOMER CARE	I.M.HADEBE	NATAL SPA
	R.B.VUNDLA	NATAL SPA
	A.L.MERVIA	NATAL SPA
	M.V.XABA	NATAL SPA
	S.C.PHAKATHI	NATAL SPA
	MM MAGAGULA	NATAL SPA
	Z.A.ZIKALALA	NATAL SPA
	B.L.NKWANYANA	NATAL SPA
	B.A.MBATHA	NATAL SPA
LED NQF LEVEL 5	B.A.MBATHA	DURBAN
	PSM BUTHELEZI	DURBAN
HOUSING TRAINING	N.S.N.MAKHOBHA	RICHARDS BAY
ELECTRONIC RECORDS MANAGEMENT	Z.A.ZIKALALA	DURBAN
	N.E.KHUMALO	DURBAN
BUDGET TRAINING	S.K.BUTHELEZI	RICHARDS BAY
	S.MNGWENGWE	RICHARDS BAY
FINANCIALS	P.H.Z.KUBHEKA	DURBAN
	N.E.SIYAYA	MANDENI

INSTITUTIONAL ARRANGEMENT

INTRODUCTION

This chapter deals with how eDumbe Municipality is structured at a political, administrative and stakeholder interface levels. It presents the organisational structure at a macro-level.

Political Administrative and Stakeholder interface



MUNICIPAL DETAILS

Members of the Council	
Hon. Mayor	Hlatshwayo MA
Deputy Mayor	Hlomuka MP
Speaker	Keswa NZ
Councillors	Kunene S J
	Mbatha I A T
	Mkhabela M S
	Mncube M S
	Mthethwa S T
	Scheepers J A
	Shabangu M A
	Sibeko T P
	Simelane N R
	Thela E S
	Zwane N N
Accounting Officer	Putini AMT
Acting Chief Finance Officer (CFO)	Mngwengwe S

Registered office	10 Hoog Street Paulpietersburg 3180
Business address	10 Hoog Street Paulpietersburg 3180
Postal address	Private Bag X3180 Paulpietersburg 3180
Bankers	First National Bank - Public Sector Banking
Auditors	Auditor-General South Africa
Telephone number	034 995 1650
Fax number	034 9951992
E-mail address mngwengwes@edumbe.gov.za	

DISCLOSURE OF COUNCILLORS AND SENIOR MANAGERS SALARIES

Employee related costs	2010	2009
Basic	13,297,014	13,154,346
Bonus	707,966	589,259
Medical aid - company contributions	328,533 -	
Leave pay provision charge -	148,866	
Bargaining council	5,382 -	
Post-employment benefits - Pension - Defined contribution plan	1,481,443	1,800,766
Housing benefits and allowances	6,996	218,504
Performance Bonus) -	(179,238	
Allowances - Electricity	188,418	1,163,291
Uniforms	100,000 -	
Unemployment Insurance Fund -	107,605	
	16,192,985	16,926,166
Remuneration of municipal manager		
Annual Remuneration	580,668	560,590
Performance Bonuses -	76,848	
Contributions to UIF, Medical and Pension Funds	1,497	1,535
Travelling Allowance	59,739	59,761
Other	53,084	3,500
Acting allowance -	17,360	
	771,836	642,746
Remuneration of acting chief finance officer		
Annual Remuneration	206,903	279,590

Cell allowance	18,974	24,573
Performance Bonuses -	65,476	
Contributions to UIF, Medical and Pension Funds	1,080 -	
Housing allowance	41,249	50,158
Travel allowance and claims	144,205	187,555
Other	8,725	5,304
	486,612	547,180
Remuneration of corporate services director		
Annual Remuneration	327,690	325,690
Car Allowance	5,998	5,948
Performance Bonuses	23,557 -	
Contributions to UIF, Medical and Pension Funds -	105,813	
Travel allowance and claims	108,000	107,000
Other	4,292	4,588
	575,350	443,226
Remuneration of councillors		
Mayor	315,389	201,594
Deputy Mayor, Speaker and exco members	747,748	406,664
Councillors	1,688,845	1,136,574
Other allowances -	810,702	
	2,751,982	2,555,534

A-PROJECTS (PROJECTS WITH FUNDING) - 2009/2010 FINANCIAL YEAR**1. NATIONAL KEY PERFORMANCE AREA: MUNICIPAL TRANSFORMATION AND ORGANIZATIONAL ARRANGEMENTS (MTAOA)**

NATIONAL KPA	Project Description	Project Status
MTAOA	Functionality of Ward Committees	All wards finalized
MTAOA	Formulation of Municipal Communication Strategy.	Done
MTOA	Construction of Municipal Offices	Complete
MTOA	Purchase of Office Equipment	Complete
MTOA	Public Participation	IDP & budget processes was properly done • IDP forums • Ward consultation meetings
MTOA	Implementation of Job Evaluation Results	Implemented
MTOA	Establishment & Implementation Of Employee Assistance Programme (EAP)	Not Done
MTOA	Training and Development	Done
MTOA	Development of an HIV/AIDS Plan (Institutional)	Done
MTOA	Review OPMS	Done
MTOA	Development of a Succession Plan	Not Done
MTOA	Team Building Initiatives	Not Done
MTOA	Reviewal of organizational structure vs powers and functions	Done
MTOA	Safety and Security	Done
MTOA	Implementation of Workplace Skills Plan	WSP adopted
MTOA	Monitor Municipal Performance	Not Done

2. NATIONAL KEY PERFORMANCE AREA: FINANCIAL VIABILITY AND SUSTAINABILITY

NATIONAL KPA	Project Description	Project Status
FINANCIAL MANAGEMENT	Implementation of Municipal Property Rates Act (MPRA)	Completed
FINANCIAL MANAGEMENT	Development of Fraud and Anti-corruption Strategy	Done
FINANCIAL MANAGEMENT	Development of Annual Report	Done
FINANCIAL MANAGEMENT	Development of Financial Plan	Done
FINANCIAL MANAGEMENT	Internal Audit & Risk Management	Done
FINANCIAL MANAGEMENT	Data Cleansing for effective billing & debt management	In-progress

3. NATIONAL KEY PERFORMANCE AREA: INFRASTRUCTURE AND SERVICES

NATIONAL KPA	PROJECT DESCRIPTION	LOCATION	PROJECT STATUS
Infrastructure & Technical Services	Rehabilitation of Paulpietersberg Roads	Ward 3	Completed
Infrastructure & Technical Services	Regravelling of eDumbe Local Roads	Ward 1 - 7	Completed
Infrastructure & Technical Services	Construction of Paulpietersberg Roads	Ward 3	Completed
Infrastructure & Technical Services	Bilanyoni Cemetery Fencing	Ward 4	Completed
Infrastructure & Technical Services	Renovation of eDumbe Sportfield	Ward 3	In progress
Infrastructure & Technical Services	Electrictrification of eDumbe Phase3	Ward 3	In progress
Infrastructure & Technical Services	Phase 5 Causeway	Ward 4	In progress
Infrastructure & Technical Services	Solid Waste Site	Ward 3	Awaits registration and tender stage

4. NATIONAL KEY PERFORMANCE AREA: LOCAL ECONOMIC DEVELOPMENT

NATIONAL KPA	PROJECT DESCRIPTION	LOCATION	PROJECT STATUS
LOCAL ECONOMIC DEVELOPMENT	Feasibility Study and Business Plan for Phongola Bush Nature Reserve	Ward 1	The documents have been completed. The initial implementation as per feasibility study is currently underway
LOCAL ECONOMIC DEVELOPMENT	Implementation of Ukuzakha Nokuzenzela Rural Development	All wards	Project on progress
LOCAL ECONOMIC DEVELOPMENT	eDumbe Multipurpose farm (Chicken Abattoir)	Ward 2	No funding
LOCAL ECONOMIC DEVELOPMENT	Tomato Hydroponic revamp	Ward 3	No funding
LOCAL ECONOMIC DEVELOPMENT	Mbizeni warm springs	Ward 4	No funding
LOCAL ECONOMIC DEVELOPMENT	eDumbe Precast (Bricks, Blocks, Tiles, Corrugated sheet) Manufacturing	Ward 3	No funding
LOCAL ECONOMIC DEVELOPMENT	Egg production and Milk proceeding factory	Ward 6	• Application for funding has been done • Waiting for response from Gijima KZN
LOCAL ECONOMIC DEVELOPMENT	eDumbe Radio Station	Ward 3	• Application for funding has been done • Waiting for response from Gijima KZN
LOCAL ECONOMIC DEVELOPMENT	FET College	Ward 3	• Waiting for response from Mthashana FET College
LOCAL ECONOMIC DEVELOPMENT	Establishment of Agricultural Forum	All wards	The forum was established and the meetings are done quarterly
LOCAL ECONOMIC DEVELOPMENT	Establishment of Chamber of Commerce and industry	All wards	In progress, meetings has been done with local businessmen
LOCAL ECONOMIC DEVELOPMENT	Business Training & Development	All wards	Workshop done
LOCAL ECONOMIC DEVELOPMENT	Business Registration	All Wards	Registrations done
LOCAL ECONOMIC DEVELOPMENT	LED Planners Forum	All Municipalities under ZDM	On progress

NATIONAL KPA	PROJECT DESCRIPTION	LOCATION	PROJECT STATUS
LOCAL ECONOMIC DEVELOPMENT	Application for Business Licensing	All Wards	Application submitted, waiting for response from DEDT
LOCAL ECONOMIC DEVELOPMENT	Consumer Rights and education workshop	Ward 3	Done

ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010.

To be included

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I was engaged to audit the accompanying financial statements of the eDumbe Municipality, which comprise the statement of financial position as at 30 June 2010, and the statement of financial performance, statement of changes in net assets and cash flow statement for the year then ended, a summary of significant accounting policies and other explanatory information, as set out on pages XX to XX.

Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and in the manner required by the Local Government: Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2009 (Act No. 12 of 2009) (DoRA). This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor-General's responsibility

3. As required by section 188 of the Constitution of South Africa, 1996 (Act No. 108 of 1996), section 4 of the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and section 126(3) of the MFMA, my responsibility is to express an opinion on the financial statements based on conducting the audit in accordance with International Standards on Auditing and *General Notice 1570 of 2009 issued in Government Gazette 32758 of 27 November 2009*. Because of the matters described in the Basis for disclaimer of opinion paragraphs, however, I was not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Basis for disclaimer of opinion

Reserves

4. Reserves totalling R41,145 million was noted in the entity's financial records but could not be traced to the financial statements. In this regard, no approval, explanations and/or documentation in support of these amounts or transactions could be provided. Consequently, I did not obtain sufficient appropriate audit evidence to satisfy myself as to the fair presentation of the financial statements with respect to the disclosure of reserves.

Property, plant and equipment

5. The municipality did not maintain a proper and GRAP compliant fixed asset register. Consequently, I was unable to obtain sufficient evidence in support of the completeness, valuation and existence of assets totalling R36,415 million, as disclosed in note 2 to the financial statements. Unexplained and unsupported differences totalling R4,521 million existed between the asset register and financial statements. Furthermore, alternative audit procedures could not be performed to support the completeness and accuracy of depreciation, as an asset listing submitted for the first time on 3

November 2010, did not contain sufficient information per asset, to enable the auditors to perform a recalculation of depreciation.

6. The entity could not provide sufficient appropriate audit evidence to support journal adjustments of R547 938 relating to asset disposals. There were no satisfactory alternative audit procedures that I could perform to obtain sufficient appropriate audit evidence to satisfy myself as to the rights, existence, valuation and completeness of this amount as presented in note 2 to the financial statements.

Finance leases

7. Lease agreements and sufficient appropriate audit evidence could not be obtained for finance leases amounting to R809 499 (2009: R436 172), which is disclosed in note 8 to the financial statements. Furthermore, SA Standards of GRAP, GRAP 13, *Leases* requires a lease to be classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. The entity is party to certain lease agreements that constitute operating leases, but which have been accounted for as finance leases. I was unable to satisfy myself as to the completeness, valuation and classification of finance leases, as presented in the financial statements.

Capital work in progress

8. The entity could not provide sufficient appropriate audit evidence to support adjustments of R3,319 million to capital work in progress. There were no satisfactory alternative audit procedures that I could perform to obtain reasonable assurance that all work in progress were properly recorded. Consequently, I did not obtain sufficient appropriate audit evidence to satisfy myself as to the rights, existence, valuation and completeness of this amount as disclosed in note 2 to the financial statements.

Receivables

9. Included in consumer debtors of R48,205 million in note 6 to the financial statements is an amount of R36,198 million relating to bad debt impairment. This impairment was based on a council decision to reduce rates debtors and furthermore, to provide for outstanding debtors for various aging categories at year-end, without being supported by risk assessments and assumptions. Consequently, the accounting officer did not comply with South African Statement of Generally Accepted Accounting Practice (SA Statement of GAAP) and IAS 39 (AC 133), *Financial Instruments: Recognition and Measurement*. Consequently, I did not obtain sufficient appropriate evidence through alternative procedures to satisfy myself as to the valuation of consumer debtors and the related impairment loss.
10. I did not obtain sufficient appropriate evidence to satisfy myself as to the valuation of trade and other receivables totalling R60 358. The completeness of refuse debtors of R36,815 million could not be ascertained due to debtors being billed for only certain months or not billed at all. Furthermore, unexplained and unsupported negative debtors balances totalling R1,159 million were reflected in note 5 to the financial statements. Consequently, I was unable to satisfy myself as the valuation, existence, completeness and rights of these balances.

Trade and other payables

11. The entity could not provide sufficient appropriate audit evidence to support journal entries of R2,090 million to trade and other payables. There were no satisfactory alternative audit procedures that I could perform to obtain reasonable assurance that all trade and other payables were properly recorded. Furthermore, an amount of R4,486 million was allocated to the creditors suspense account. Consequently, I did not obtain sufficient appropriate audit evidence to satisfy myself as to the obligation, existence, valuation and completeness of trade and other payables.

Provisions

12. The entity could not provide sufficient appropriate audit evidence to support provisions totalling R2,052 million. Furthermore, unexplained differences totalling R2,654 million existed between the entity's financial records and note 10 to the financial statements. Consequently, I was unable to satisfy myself as to the completeness, valuation and obligation of provisions.

Value added tax (VAT)

13. The municipality did not maintain proper supporting records, schedules and supporting documentation for journal entries processed to satisfy the completeness and valuation of VAT payable totalling R2,032 million, as disclosed in note 13 to the financial statements. Alternative audit procedures could not be performed to support the completeness of VAT payable and receivable on a monthly basis as individual transactions were not captured in the general ledger.

Clearing/ suspense accounts

14. Sources of the transactions in a clearing account should be readily identifiable, as well as monthly reconciliation's must be performed to confirm the balance of the account. This information could not be provided for clearing/ suspense accounts totalling R694 020. The entity's records did not permit the application of alternative audit procedures regarding these clearing/ suspense accounts. Consequently, I did not obtain sufficient appropriate audit evidence to satisfy myself as to the existence, obligation, completeness, valuation, accuracy, occurrence and allocation of these clearing/ suspense accounts.

Revenue

15. I did not obtain all the information and explanations I considered necessary to satisfy myself as to the completeness, occurrence and accuracy of amounts for the sale of electricity totalling R13,228 million, other income totalling R2,766 million, fines totalling R364 560, penalties and collection charges totalling R202 830 and other service charges totalling R2 317. In this regard, explanations, reconciliations, registers and documentation could not be provided in support of or for the differences noted. Moreover, the entity's records did not permit the application of alternative audit procedures.
16. Trading interest totalling R948 019 could not be traced to supporting documentation. Consequently, I did not obtain sufficient appropriate audit evidence as to the completeness, accuracy and occurrence of trading interest.

Electricity distribution losses

17. The municipality did not quantify and disclose electricity distribution losses in the financial statements, as required by section 125(2)(d) of the MFMA. The municipality's records did not permit the application of alternative audit procedures regarding the distribution losses. Consequently, I did not obtain sufficient appropriate audit evidence to satisfy myself as to the accuracy and completeness of these losses. Furthermore, the municipality did not monitor and record electricity distribution losses during the year under review.

Expenditure

18. I did not obtain sufficient appropriate audit evidence to satisfy myself as to the occurrence, completeness, accuracy, cut-off and classification of expenditure, as the entity could not provide sufficient appropriate audit evidence to support journal entries of R2,118 million (2009: R1,974 million), respectively to expenditure. There were no satisfactory alternative audit procedures that I could perform to obtain reasonable assurance that all expenditure was properly recorded.

Grants

19. I did not obtain sufficient appropriate supporting documentation and/or explanations to support negative unspent grants totalling R1,015 million. Furthermore, differences existed between the general ledger and trial balance, working papers and actual amounts received by the municipality. No explanations could be provided in this regard. A further unsupported /unexplained difference of R5,206 million was noted between the financial statements and the general ledger.

Accumulated surplus

20. The entity could not provide sufficient appropriate audit evidence to support adjustments R2,710 million to the opening balance of accumulated surplus. There were no satisfactory alternative audit procedures that I could perform to obtain reasonable assurance of the accuracy, completeness, classification and occurrence of these adjustments, as presented in note 31 to the financial statements.

Commitments

21. There was no contract management system in place for the identification and recognition of contracts and there were no satisfactory alternative audit procedures that I could perform to obtain reasonable assurance that all commitments were properly recorded. Consequently, I was unable to obtain sufficient appropriate audit evidence to satisfy myself as to the completeness of commitments of R300 000, as stated in note 28 to the financial statements. Furthermore, commitments totalling R530 000 relating to a guarantee was not disclosed in the financial statements.

Unauthorised expenditure

22. The municipality has incurred unauthorised expenditure of R37,018 million as a result of overspending on its budget totalling R35,728 million. Furthermore, payments totalling R1,290 million were made prior to delegated officials approving them.

Fruitless and wasteful expenditure

23. Fruitless and wasteful expenditure totalling R290 900 was incurred, as a result of late payments to suppliers and interest on bank overdraft. Disclosure of this expenditure was not made in the financial statements.

Irregular expenditure

24. Irregular expenditure, totalling R19,061 million, has occurred as a result of the municipality contravening legislated supply chain management practices. This was not disclosed in the financial statements.

Going concern

25. The municipality incurred a net operating loss of R25,009 million at 30 June 2010. These conditions along with other matters indicate the existence of material uncertainty that may cast significant doubt on the municipality's ability to operate as a going concern. Further conditions included late payment of creditors and a deteriorating debtor collection rate. An assessment in this regard was not made by management, and the financial statements and notes thereto do not disclose this fact.

Disclaimer of opinion

26. Because of the significance of the matters described in the Basis for disclaimer of opinion paragraphs, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, I do not express an opinion on these financial statements.

Emphasis of matter

27. I draw attention to the matter below. My opinion is not modified in respect of this matter:

Restatement of corresponding figures

28. As disclosed in note 31 to the financial statements, the corresponding figures for 30 June 2009 have been restated as management corrected misstatements in the opening balances for certain debtors' and creditors' opening balances, resulting from prior year audit findings in the preparation of the 2009-2010 financial statements.

Additional matters

29. I draw attention to the matters below. My opinion is not modified in respect of these matters:

Unaudited supplementary schedules

30. The supplementary information set out on pages XX to XX do not form part of the financial statements and is presented as additional information. I have not audited these schedules and accordingly I do not express an opinion thereon.

Material inconsistencies in other information included in the annual report

31. I acknowledge receipt of the draft annual report which contained inconsistencies with the audited financial information. The final annual report in terms of section 127(2) of the MFMA will be reviewed on receipt.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

32. As required by the PAA and in terms of *General Notice 1570 of 2009* issued in *Government Gazette 32758 of 27 November 2009*, I include below my findings on the report on predetermined objectives, compliance with the following key laws and regulations ((Local Government: Municipal Systems Act of South Africa, 2000 (Act No. 32 of 2000) (MSA) and MFMA)), and financial management (internal control).

Predetermined objectives

33. Material findings on the report on predetermined objectives, as set out on pages XX to XX, are reported below:

Non-compliance with regulatory and reporting requirements

Local Government: Municipal Systems Act of South Africa, 2000 (Act No. 32 of 2000) (MSA)

34. The municipality's integrated development plan (IDP) was not advertised within 14 days of adoption, as required by section 25(4) of the MSA.
35. Key performance indicators, as set out in the IDP were not measurable, relevant, objective and precise, as required by sections 26(i) and 4(1)(a-d) of the MSA.
36. The annual performance report did not contain any information on the performance of external service providers, as required by section 46(1)(a) of the MSA.

Lack of effective, efficient and transparent systems and internal controls regarding performance management

37. A performance management policy has not been adopted, approved and implemented during the year, as required by section 38 of the MSA.
38. There is no proof that the municipality's performance management system has been reviewed, as required by section 40 of the MSA.

Existence and functioning of a performance audit committee

39. There is no evidence that performance reviews, as required by section 41(c) of the MSA, were undertaken during the year. Furthermore, there is no evidence of quarterly reviews being undertaken by the performance audit committee.
40. **Internal auditing of performance measurements** No internal auditing of performance measurements were performed, as required by section 45(a) of the MSA.

No mid-year budget and performance assessments

41. No mid-year performance assessments were undertaken by the accounting officer, as required by section 72(1)(h) of the MFMA SA.

Usefulness of reported performance information

42. The following criteria were used to assess the usefulness of the planned and reported performance:

- Consistency: Has the municipality reported on its performance with regard to its objectives, indicators and targets in its approved integrated development plan, i.e. are the objectives, indicators and targets consistent between planning and reporting documents?
- Relevance: Is there a clear and logical link between the objectives, outcomes, outputs, indicators and performance targets?
- Measurability: Are objectives made measurable by means of indicators and targets? Are indicators well defined and verifiable, and are targets specific, measurable, and time bound?

The following audit findings relate to the above criteria:

Planned objectives, indicators and targets not relevant to the mandate and or objectives of the entity

43. Management has not taken the municipality's mission and mandate into consideration when developing objectives, as more than 80% of measurable objectives do not relate to the municipality's mission and goals as per the approved 2009-2010 IDP.

Planned and reported indicators/measures not well defined

44. Planned and reported outcomes were not well defined as measurable objectives and indicators as per the report on predetermined objectives were not aligned to the IDP.

Reliability of reported performance information

45. The following criteria were used to assess the reliability of the planned and reported performance:

- Validity: Has the actual reported performance occurred and does it pertain to the entity i.e. can the reported predetermined performance objectives be traced back to the source data or documentation?
- Accuracy: Amounts, numbers and other data relating to reported actual performance has been recorded and reported appropriately.
- Completeness: All actual results and events that should have been recorded have been included in the reported predetermined objectives.

The following audit findings relate to the above criteria:

Reported information not consistent with planned objectives, indicators and targets

46. Final reported objectives as per the report on predetermined objectives differed from objectives recorded in the IDP, which indicates that possible changes could have occurred during the year. There is no evidence that these changes have been approved.

No supporting source documentation

47. Inadequate/no supporting source documentation existed to support the completeness and validity of information presented in the report on predetermined objectives.

Compliance with laws and regulations

Local Government: Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA)

The accounting officer did not adhere to his statutory responsibilities

48. The accounting officer did not within 30 days after the end of each quarter, prepare and submit a consolidated report of all withdrawals made during 2009/2010 to council, Provincial Treasury or to the Auditor-General, as required by section 11(4) of the MFMA.
49. There is no evidence that reports were prepared, submitted and reviewed, as required by section 54(1) and section 72 of the MFMA.
50. Monthly reports were not submitted to Provincial Treasury within 10 working days after each month, as required by section 71 of the MFMA.
51. The municipality failed to submit, at the start of the financial year, banking details to the Provincial Treasury and Auditor-General, as required by section 9 of the MFMA.
52. Notification of the bank overdraft was not sent to National Treasury, as required by section 70(2) of the MFMA.

Supply Chain Management legislative requirements were not implemented or not adhered to

53. Performance of contractors were not monitored monthly or at all, as required by section 116(2)(b) of the MFMA.
54. Delegations of authority were not approved and implemented, as required by section 79 of the MFMA.
55. Payments have been made to suppliers before final approval takes place of payment documentation, contrary to section 65(2)(a) of the MFMA.

The financial statements were not prepared in accordance with applicable legislation

56. A fraud prevention plan was not approved and implemented, as required by section 62(1)(c)(i) of the MFMA.
57. Policies and procedures for major financial cycles was not approved during the year, as required by section 62(1)(f) of the MFMA.

58. The municipality had to make material adjustments to the annual financial statements submitted for audit on 31 August 2010. These adjustments constitute non-compliance with section 122(1) of the MFMA.

The mayor did not adhere to his legislative responsibilities

59. The SDBIP was not approved within 14 days of approval of the annual budget, in accordance with section 69(3) of the MFMA.
60. The municipality did not administer its budget effectively and efficiently, as required by sections 70(1)(a) and (b) of the MFMA, which has resulted in unauthorised expenditure.
61. Management did not make any assessments to ascertain whether the municipality is undergoing serious financial problems, as required by section 138 of the MFMA.

The audit committee was not properly established or not functioning properly

62. Due to the late appointment of the internal audit, the audit committee did not substantially fulfil all its duties relating to its oversight role over internal audit during the year, as required by section 166 of the MFMA.

The internal audit unit was not properly established or not functioning properly

63. The internal audit was only appointed at the end of January 2010 and as a result did not substantially fulfil all its responsibilities for the year, as required by section 166(2)(a)(i) of the MFMA.

INTERNAL CONTROL

64. I considered internal control relevant to my audit of the financial statements and the report on predetermined objectives as well as compliance with the following key laws and regulations (MSA and MFMA), but not for the purpose of expressing an opinion on the effectiveness of internal control.
65. The matters reported are limited to the significant deficiencies that gave rise for the Basis for disclaimer of opinion paragraph, the findings on the report on predetermined objectives as well as the findings on compliance with laws and regulations.

Leadership

66. Management has failed to adopt an appropriate tone at the top to ensure that supervision, review and monitoring of the municipality's processes were undertaken, so as to ensure that controls were implemented and functioning effectively and efficiently as well as consistently during the year under review.

Financial and performance management

67. The municipality's financial and performance management processes were inadequate and/or not implemented at all, which resulted in the numerous financial and control related weaknesses identified and reported on during the audit process.

Governance

68. Key aspects of ensuring proper governance was absent or inadequate, thus appropriate action was not taken to identify weaknesses in internal controls and mitigate the risks in a timely manner.

OTHER REPORTS

Investigation in progress

69. An investigation into financial misconduct and embezzlement of municipal funds involving the suspended chief financial officer is still in progress.

Pietermaritzburg

30 November 2010



A U D I T O R - G E N E R A L
S O U T H A F R I C A

Auditing to build public confidence

TO BE INCLUDED